# 1st MONDAY 3rd MONDAY

Prepared for employees by the
Milwaukee Road's Corporate Communications Department
516 West Jackson Boulevard Chicago, Illinois 60606
Telephone 312 648-3324

May 21, 1979

Managers and Supervisors:

The court hearing on the Trustee's embargo plan lasted from May 15 to May 18. Because of his heavy case load Judge McMillen assigned a special master, Milton Gray, to conduct the last three days of the hearing. At the close of the hearing, Gray said he expected to have his report to the Judge by this Thursday. Attorneys of record will then have until noon on May 29 to file replies to the report.

The next court hearing is scheduled for 2 p.m. on May 29. The Trustee is seeking court authority to borrow $20 million under the terms of the Emergency Rail Services Act of 1970. We have already filed applications for the loan with the ICC and the FRA. Secretary of Transportation Brock Adams has said that everything will be done to expedite the loan should the court approve it.

One of the major developments at the four-day hearing was the introduction of elements of the ICC's plan for directed service. While some details have to be finalized, the ICC will not vote on directed service until after Judge McMillen acts on the Trustee's embargo proposal. Also, it appears likely that the ICC will adopt directed service for an initial period of 60 days and then possibly modify the plan and extend it for the balance of the eight-month period allowed under law.

At the hearing the ICC presented a map showing which of the embargoed lines would be served by other railroads. While these railroads were not named, the ICC said its plan would cover some 72% of the embargoed lines and would provide service for 99.4% of the traffic that originates and terminates on the lines. Under the ICC's plan we would provide the directed railroads with a yet unspecified number of our locomotives and freight cars. The ICC plan contemplates that about 2,000 Milwaukee Road employees who would be furloughed as a result of the embargo would be employed by the directed railroads during directed service operations.

While the court and the ICC are deciding these important issues, we are still operating a railroad.

Our operations are at about as high a level as we can make them given our financial resources and the condition of our plant and equipment. We still do not have enough locomotives; about 100 road units are out of service. We are also very short of some kinds of freight cars in certain market areas. While carloadings the past six weeks have been slightly higher than their average level during the first quarter of the year, loadings are still down about 7% compared to what they were a year ago. However, we have not seen any erosion of traffic levels since the Trustee announced his embargo proposal on April 23.

The cost of operating the railroad still far exceeds our revenues. Our losses during the first quarter of 1979 were approximately $45 million. Estimates are that the railroad would lose an additional $112 million if the full system were operated for the rest of the year. This would bring the estimated loss for the full year to more than $150 million.

The 4R-funded locomotive and freight car programs are now, respectively, about 80% and 65% complete. As of mid-May, Milwaukee Shops forces had turned out 90 of the 111 locomotives in the program and 617 of the 950 freight cars. Work on the 4R track rehabilitation program on the Milwaukee-St. Paul main line resumed in mid-April. There are now about 350 people at work on this project.

Due to the withdrawal of shipper financial support we have shut down temporarily the Shipper Assistance Program for the repair of freight cars. Forces that had been assigned to this work have been moved to other repair projects at Milwaukee Shops. Before the program was terminated, nearly 270 cars, mostly grain hoppers, had been repaired with nearly $2 million in shipper loans. We are talking with several shippers who have expressed an interest in renewing the program.

What the press has recently been calling the "California Syndrome"--no gas--could become a railroad industry problem. Since January the price of a gallon of diesel fuel has gone from about 41 cents to nearly 50 cents. On an annual basis this could add about $9 million to our basic operating costs. The ICC has approved a modest rate increase to help the railroad offset the rising cost of fuel. The AAR has recently suggested that steps should be taken by the Federal government to make fuel available to the railroads on a priority basis just as is being done for the nation's farmers. I agree. Most of our major suppliers already have us on an allocation program based on a percentage of the fuel we purchased last year.

W. L. Smith
President

First Monday / Third Monday
516 W. Jackson Blvd.
Room 824
Chicago, IL 60606

306 001080
SUPVR. CAR UTILIZATION
THE MILWAUKEE ROAD
MILWAUKEE